**APA Report Recommendations**
**Summarized by Category**
*For the ITIB February 4, 2004 Meeting*

*This document re-orders the recommendations contained in the APA report into six key areas and, in some cases, realigns the component parts found within a single recommendation under these key areas for better understanding.*

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## I. COMPLETED OR NEAR COMPLETION

### Recommendation 13—JLARC Approved Rates

13.1 We recommend that the Board require VITA to use only the JLARC approved rates and to refuse to grant agency exemptions.

### Recommendation 14—Consistent Fiscal Policies and Practices

14.1 We recommend that VITA consistently apply their policies and procedures relative to billing, equipment credits, savings credits and remediation costs once they are developed.  Granting agency exceptions or inconsistent application of their policies could jeopardize Federal funds.

### Recommendation 15

15.1 We recommend that the Board require VITA staff to vigorously pursue and resolve the repayment of VDOT for the use of their staff and resources.  VDOT has limited financial resources and the Code of Virginia is very specific about the use of these funds.  Inappropriate use could result in state compliance issues.

## II. ADMINISTRATIVE ACTIONS OF THE BOARD

### Recommendation 1—Board Process

1.1 The Board should work with the Chief Information Officer to explain its expectations on the consideration and deliberation of policy matters.

1.2 The Board and the CIO should also establish how and when the individual Board committees will receive and consider information and how the Board committees will report to the full Board.

1.3 Additionally, the Board should establish a mechanism whereby Board members may participate in developing meeting agendas along with governing rules that provide sufficient information and time to consider any proposals and recommendations.

2.3 Further, we recommend that the Board should not approve VITA to accelerate the consolidation of any large agencies until they have a business plan, policies and procedures, and have adequately addressed the findings in this report.  The purpose of the incremental consolidation of agencies into VITA was to give VITA the time required to build their controls and systems and test them on the small, then medium and finally large agencies.  There was a recognized risk of failure from implementing the large agencies before processes, controls, and underlying systems were in place.

### Recommendation 7—VITA Audit Director

7.1 The Board should hire an Audit Director as soon as possible and require him to report directly to the Board.  The Board should also be responsible for approving the audit work plan.   If the organizational structure is modified as we recommend, the audit function will be able to provide the Board unbiased updates on the VITA implementation and will also be able to provide constructive feedback to VITA management concerning implementation and internal control issues.

# III. PLANNING & FINANCIAL ANALYSES

## Recommendation 3—VITA/Business Plan

VITA's business plan documents are insufficient and do not meet best practices.  However, for VITA to complete a business plan for all operations is neither practical nor feasible at this point.  Continuing to operate without a usable business plan is also neither practical nor feasible.

 Since the legacy operations have existing policies and procedures, we would recommend that VITA's senior management and the CIO complete a business plan for all of the new services.

This business plan should incorporate the following items for the new services;

3.1 A market comparison;

3.2 A customer analysis that identifies VITA's customer needs;

3.3 A pricing strategy that includes a description of VITA's new service rates and how they are calculated;

3.4 A description of operations that outlines the scope of VITA's operations, how it will deliver their service, and what services VITA plans to perform in-house versus outsourcing;

3.5 A development strategy that describes what work remains to complete and implement VITA's new services, i.e. what are all of the steps that VITA needs to accomplish to get the new services up and running; and,

3.6 A financial section that includes new services and consists of well-constructed financial information including cash flow projections, a discussion of financial assumptions and funding requirements.

2.2 VITA management should also provide the Board a summary of its performance compared to the business plan and, at least twice a year, indicate issues or matters that the Board should consider adopting within the business plan.  Finally, the Board and management should develop a regular cycle to review and update the business plan on a more permanent basis, such as once every three to five years.

2.4 Finally, the Board needs to consider and incorporate into the business plan some long term goals and objectives concerning technology in the Commonwealth.  This last consideration should elicit the advice and opinions of state agencies and institutions, the Administration, Legislature and public concerning what systems and technologies would best serve the Commonwealth.

## Recommendation 2—Board/Business Plan

By the Board using VITA's business plan as its initial tool, we believe the Board can strike a balance between exercising its supervisory duties and overseeing VITA without becoming overly involved in VITA's daily operations.

2.1 Prior to adopting the business plan, the Board should require VITA management to address the findings in this report and develop some of the policies and procedures that will affect operations, such as the guidelines for considering privatization proposals.

2.5 Finally, the Board needs to consider and incorporate into the business plan some long term goals and objectives concerning technology in the Commonwealth. This last consideration should elicit the advice and opinions of state agencies and institutions, the Administration, Legislature and public concerning what systems and technologies would best serve the Commonwealth.

### Recommendation 9—P&L Statements

9.1 The Board should have the VITA staff provide a revised profit and loss projection, which corrects the assumptions discussed above. The Board should also have the staff begin preparing and providing the Board with monthly financial information that includes not only the internal service fund information shown in the profit and loss projection, but the entire funding of VITA. These projections and monthly financial information should show the effects of not receiving future funding.

9.2 The Board should have VITA staff modify the projections to reflect any future budget adjustments as they occur. Also, since the profit and loss projection coupled with the due diligence information will form the core data for the revised service rate requests,

9.3 VITA staff should provide the Finance Committee and potentially the entire Board a briefing on VITA's financial status.

### Recommendation 11—Cost and Savings Methodology

11.1 VITA staff should develop a methodology to include policies and procedures to analyze costs and proposed savings before placing an initiative into development and to monitor on-going costs and savings during implementation. After developing a methodology, VITA staff should obtain approval for the methodology from the Board and the Secretary of Finance. VITA should also develop a method to monitor the true on-going savings and costs throughout the implementation of the initiative to ensure VITA realizes and captures the projected cost savings.

11.2 Further, until the Board approves a methodology and VITA validates due diligence data, both the Administration and the Legislature should exercise professional skepticism of any projected savings provided by VITA before using them as a basis to reduce agencies appropriations.

6.2 In addition, the Board should direct VITA staff to develop a methodology for calculating savings to fund the Virginia Technology Infrastructure Fund. After it is developed, the Board should review and approve the methodology.

12.4 Further, the Board should direct VITA staff to provide details of the components of their overhead and develop plans to control or reduce these costs in an effort to reduce service rates. Without knowing what makes up the overhead amounts, it is impossible for VITA or the Board to identify ways they can reduce them. VITA should closely monitor the increases in overhead and recommend actions to the Board to reduce these costs if the service revenue is insufficient.

### IV. SUPPORT SYSTEM DEVELOPMENT

### Recommendation 4—Billing System

4.1 VITA's senior management needs to complete the development of a billing system and ensure that the system can appropriately account for the equipment and saving credits required by the JLARC approval of the rates.

## Recommendation 5—Other Administrative Systems

5.1 VITA should continue to focus efforts on fixing BERT quickly so VITA will have the required information to make informed recommendations regarding funding needs to the Board and JLARC. Without this information, everyone is forced to make decisions based on data that does not contain the level of reliability and precision they need.

5.2 VITA should also continue their effort to develop a new budgeting system based on a modern programming language that is not difficult to support. The new budgeting system should interface with VITA's accounting system to allow for monitoring of detailed budgets by managers, to use electronic triggers for overspending against a budget, and improve efficiency and reduce the likelihood of errors caused by the double keying of subsequent budget adjustments.

The new budgeting system should allow for downloading prior year transaction summaries to use in future budget development.

5.3 Further, it should interface with the Asset Management System to allow for the budgeting of equipment refreshing, license renewal, and equipment maintenance expenses.

5.4 An interface with the payroll system is also necessary in order to obtain detailed salary and wage information by employee, billing element, and cost center.


## V. STRENGTHENING DECISION SUPPORT DATA

## Recommendation 6—PPEA Criteria

6.1 The Board should direct the CIO and VITA staff to begin developing the criteria and process for reviewing and considering proposals under the Public-Private Education Facilities and Infrastructure Act. VITA staff should show how their process compares to other existing criteria used by other boards and agencies and how any and all operating constraints are part of the consideration. Finally, the Board along with VITA staff should develop a mechanism to consider PPEA's within VITA's business plan.

## Recommendation 8—Due Diligence Data
8.1 Since VITA will need to obtain JLARC's approval for rates by September 30, 2004, VITA management should develop a process to review and correct the "due diligence" information by March 31, 2004. While a complete detailed review is not practical, management should determine what key information is necessary to provide the most accurate rate information, which should carry VITA into and through the large agency transfers.

## Recommendation 10—PPEA Cost Basis
10.1 We recommend that the Board direct the CIO and VITA staff to obtain accurate and reliable financial information for use in comparing PPEA proposals to VITA's cost of providing the services in-house. VITA and the Board must implement this recommendation in conjunction with the previous recommendation concerning PPEAs. If VITA staff base their PPEA evaluations on the current data, they may accept proposals that are not financially advantageous to the Commonwealth.

## [Architecture & Rates]
13.2 Instead, VITA should work to identify ways to reduce the cost of their operations so the rates are competitive, meet the needs of the majority of Commonwealth agencies, and are not more

sophisticated than necessary to get the work done efficiently. VITA should evaluate the level of computing sophistication needed by agencies and establish a computing standard. They should also study the optimum replenish cycle necessary to satisfy agency needs and determine if revising the current four year cycle is appropriate.

## VI. STAFFING

### Recommendation 12—Staffing Costs and Methods

12.1 In an effort to provide services to agencies at the lowest possible prices, the Board should re-evaluate the no reduction in force policy.

12.2 The Board should direct VITA to only absorb additional staff when specifically needed and also identify opportunities for staff reductions as part of their detailed business plan development.

12.3 Further, VITA should work with the Department of Human Resource Management to find alternatives to layoffs for staff VITA identifies as unnecessary. Personnel expense is one of the largest components of VITA's service rates and is controllable. VITA must be innovative in identifying alternatives to deliver services while keeping the personnel expense component as low as possible.